



Moses Kotane Local Municipality
Annual Financial Statements
for the year ended June 30, 2019

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

General Information

Nature of business and principal activities

The municipality is, within its financial and administrative capacity to:

- Provide democratic and accountable government for the community;
- To ensure the provision of services to the community in a sustainable manner;
- To promote social and economic development;
- To promote a safe and healthy environment; and
- To encourage the involvement of the community and community organisations in the matters of the municipality.

Executive committee

Mayor

Cllr. R. Diale

Councillors

Cllr S. Vava (Speaker)

Cllr. M. Matshaba (Single whip)

Cllr. T. Manganye (Chair of MPAC)

Cllr. T. Bothokwane (Portfolio Head of Planning and Development)

Cllr. MN Nkotswe (Portfolio Head of Local Economic Development)

Cllr. T. Thobokwe (Portfolio Head of Corporate services)

Cllr. L. Kapari (Portfolio Head of Finance)

Cllr. X. Kheswa (Portfolio Head of Community Services and Public Safety)

Cllr. MS. Manganye (Portfolio Infrastructure Technical Services)

Grading of local authority

Medium

Four

Accounting Officer

Mr. M.V. Letsoalo

Chief Finance Officer

Mr. M. Mkhize

Registered office

Stand No.933

Station Road

Unit 3

Mogwase Shopping Complex Mogwase
0314

Business address

Stand No.933

Station Road

Unit 3

Mogwase Shopping Complex Mogwase
0314

Postal address

Private Bag X1011

Mogwase

0314

Bankers

Standard bank

ABSA

Moses Kotane Local Municipality

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
MSA	Municipal Systems Act
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered institute of Government Finance Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements set out on pages 5 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2019 and were signed by:

Mr M.V. Letsoalo
Municipal Manager

Mogwase

Saturday, November 30, 2019

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Audit Committee Report

We are pleased to present the Audit Committee's report for the financial year ended June 30, 2019.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved audit committee charter. During the financial year 4 meetings were held.

Name of member	Number of meetings attended
Mr I.S Mogotsi (Chairperson)	4
Mr M Makgale	4
Mr S.A.B Ngobeni	3
Ms S.J Masite	4
Mr T Zororo	3

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2) of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee charter, which codifies specific responsibilities entrusted and delegated to it by the municipal Council, and details the manner in which the Audit committee operates

We confirm that the Audit committee has reviewed the unaudited Annual Financial Statements and Annual Performance report for the 2018/2019 financial year.

The Audit committee is satisfied that the Internal audit is operating efficiently and effectively, and that they were involved in addressing the risks pertinent to the municipality. The Internal audit activity was also afforded the opportunity to review the unaudited Annual Financial Statements and Annual Performance report

Chairperson of the Audit Committee

Date: _____

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2019.

1. Review of activities

Main business and operations

The municipality is engaged in local service delivery to the surrounding community of Moses Kotane and operates under the Bojanala Platinum District Municipality.

Net surplus of the municipality was R 11,958,733 (2018: deficit R 55,445,916).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report was:

Name

Mr. M.V. Letsoalo

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to exercise the Municipality's executive and legislative authority within the constitutional system of cooperative governance envisaged in Section 41 of the Constitution, as stated in the Local Government: Municipal Systems Act. The accounting officer discusses the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the MSA on a three monthly basis.

Remuneration

The upper limits of the remuneration, allowances and benefits of the Accounting Officer, the executive directors and the Councillors of the municipality, as disclosed in note 22 and in note 23 of the financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of the Public Office Bearers Act and the Minister of the Provincial and Local Governments determination in accordance with the Act.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	7	11,724,948	8,848,603
Receivables from exchange transactions	8	1,221,711	2,443,423
Receivables from non-exchange transactions	9	15,024,643	14,108,434
VAT receivable		-	28,525,146
Consumer debtors	10	203,986,969	146,310,712
Cash and cash equivalents	11	64,693,148	7,209,436
		296,651,419	207,445,754
Non-Current Assets			
Investment property	3	155,209,867	155,207,352
Property, plant and equipment	4	3,298,663,154	3,291,386,913
Intangible assets	5	39,779,740	51,757,557
Heritage assets	6	14,000	14,000
		3,493,666,761	3,498,365,822
Total Assets		3,790,318,180	3,705,811,576
Liabilities			
Current Liabilities			
Other financial liabilities	14	12,507,487	7,085,924
Vat payable		3,111,621	-
Finance lease obligation	12	-	1,187,051
Payables from exchange transactions	16	226,235,959	193,255,767
Unspent conditional grants and receipts	13	61,087,248	11,471,943
Provisions	15	2,427,951	14,286,257
		305,370,266	227,286,942
Non-Current Liabilities			
Other financial liabilities	14	31,322,416	39,207,470
Provisions	15	30,917,922	28,568,320
		62,240,338	67,775,790
Total Liabilities		367,610,604	295,062,732
Net Assets		3,422,707,576	3,410,748,844
Accumulated surplus		3,422,707,577	3,410,748,840

* See Note 36 & 35

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Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Performance for the year ended 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	154,198,624	136,000,077
Interest received		50,562,829	66,035,201
Commissions received		161,343	152,386
Rental income		42,260	7,054
Sale of stands/land		300,000	460,000
Other income	19	1,482,551	936,242
Total revenue from exchange transactions		206,747,607	203,590,960
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	134,800,237	122,556,701
Transfer revenue			
Government grants & subsidies	21	572,781,972	555,082,375
Public contributions and donations		3,910,239	-
Fines, Penalties and Forfeits		2,505,080	5,315,890
Total revenue from non-exchange transactions		713,997,528	682,954,966
Total revenue	17	920,745,135	886,545,926
Expenditure			
Employee related costs	22	(201,703,902)	(186,306,006)
Remuneration of councillors	23	(25,512,410)	(24,207,715)
Depreciation	24	(159,814,360)	(180,939,080)
Finance costs	25	(6,177,546)	(6,177,263)
Lease rentals on operating lease		(2,053,038)	(820,704)
Debt Impairment	26	(131,416,735)	(172,644,083)
Repairs and Maintenance		(56,700,979)	(79,718,489)
Bulk purchases	27	(98,807,858)	(87,863,925)
Contracted services		(123,813,453)	(81,362,140)
Ward committees		(4,498,089)	(5,202,228)
General Expenses	28	(96,759,764)	(116,544,991)
Total expenditure		(907,258,134)	(941,786,624)
Operating surplus (deficit)		13,487,001	(55,240,698)
Loss on disposal of assets and liabilities		(1,483,413)	(100,554)
Fair value adjustments		2,515	31,124
Inventories losses/write-downs		(47,370)	(135,788)
		(1,528,268)	(205,218)
Surplus (deficit) for the year		11,958,733	(55,445,916)

* See Note 36 & 35

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Statement of Changes in Net Assets for the year ended 30 June 2019

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2017	3,466,194,756	3,466,194,756
Changes in net assets		
Surplus/(Deficit) for the year	(55,445,916)	(55,445,916)
Total changes	(55,445,916)	(55,445,916)
Restated* Balance at July 1, 2018	3,410,748,844	3,410,748,844
Changes in net assets		
Surplus for the year	11,958,733	11,958,733
Total changes	11,958,733	11,958,733
Balance at June 30, 2019	3,422,707,577	3,422,707,577

* See Note 36 & 35

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Cash Flow Statement for the year ended 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Receipts from consumers		143,189,496	272,602,814
Grants		622,397,277	553,549,349
Interest income		4,689,317	66,037,935
Vat		36,858,403	-
Other Income		1,986,154	-
		<u>809,120,647</u>	<u>892,190,098</u>
Payments			
Cash paid to suppliers and employees		(595,301,037)	(539,601,612)
Net cash flows from operating activities	30	<u>213,819,610</u>	<u>352,588,486</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(153,165,855)	(95,679,579)
Proceeds from sale of property, plant and equipment	4	480,497	-
Net cash flows from investing activities		<u>(152,685,358)</u>	<u>(94,828,630)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		2,463,491	(7,327,263)
Finance lease movements		(1,187,051)	(1,842,016)
Repayment in liabilities		-	(272,362,735)
Net cash flows from financing activities		<u>(3,650,542)</u>	<u>(281,532,014)</u>
Net increase/(decrease) in cash and cash equivalents		57,483,710	(23,772,158)
Cash and cash equivalents at the beginning of the year		7,209,436	30,981,594
Cash and cash equivalents at the end of the year	11	<u>64,693,146</u>	<u>7,209,436</u>

* See Note 36 & 35

Moses Kotane Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	145,025,000	36,095,000	181,120,000	154,198,624	(26,921,376)	Less water was sold due to the unavailability of water and therefore less consumption
Interest received (trading)	70,900,000	(7,021,000)	63,879,000	50,562,829	(13,316,171)	Less money invested in the current year as compared to prior year. Less funds available due to cash flow constrains
Commissions received	180,000	-	180,000	161,343	(18,657)	Commision received on deductions from employees salaries regarding insurance
Rental income	10,000	-	10,000	42,260	32,260	Rentals from unit 8 flats did not materialise as planned.r
Sale of stands/ Land	606,400	-	606,400	300,000	(306,400)	No provision for sale of stands as sales are unpredicatable.
Other income	1,903,600	(196,500)	1,707,100	1,482,551	(224,549)	Some income did not materialise as planned. Such as LGSETA refunds.
Total revenue from exchange transactions	218,625,000	28,877,500	247,502,500	206,747,607	(40,754,893)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	124,692,000	8,622,414	133,314,414	134,800,237	1,485,823	N/A

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Transfer revenue						
Government grants & subsidies	393,081,713	229,419,285	622,500,998	572,781,971	(49,719,027)	Difference is due to conditional grants conditions not met during the year.
Public contributions and donations	-	-	-	3,910,239	3,910,239	Grant received fro Bojanala Platinum District Municipality for refurbishment of water assets
Fines, Penalties and Forfeits	5,600,000	(1,050,000)	4,550,000	2,505,080	(2,044,920)	There were no camera fines issued since January to date due to speed cameras not working.
Total revenue from non-exchange transactions	523,373,713	236,991,699	760,365,412	713,997,527	(46,367,885)	
Total revenue	741,998,713	265,869,199	1,007,867,912	920,745,134	(87,122,778)	
Expenditure						
Personnel	(233,218,000)	15,996,000	(217,222,000)	(201,703,902)	15,518,098	Not all vacant posts were filled, there is a high vacancy rate
Remuneration of councillors	(28,852,000)	1,532,000	(27,320,000)	(25,512,410)	1,807,590	N/A
Depreciation and amortisation	(130,138,000)	(9,953,000)	(140,091,000)	(159,814,360)	(19,723,360)	Depreciation increased due to new asset additions.
Finance costs	(7,000,000)	(300,000)	(7,300,000)	(6,177,546)	1,122,454	Due to decrease in financial liabilities.
Lease rentals on operating lease	(1,900,000)	-	(1,900,000)	(2,053,038)	(153,038)	.
Debt Impairment	(106,186,000)	-	(106,186,000)	(131,416,735)	(25,230,735)	Debt impairment has increased due to introduction of an incentive scheme for 50% debt reduction to encourage long outstanding debt recovery.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Repairs and Maintenance/Contractors	(54,645,000)	(3,905,399)	(58,550,399)	(56,700,979)	1,849,420	Reclassification of expenditure under contracted services
Bulk purchases	(80,000,000)	(8,000,000)	(88,000,000)	(98,807,858)	(10,807,858)	Bulk water is based on water consumption and more water had been consumed.e
Consulting Services & outsourced	(154,498,000)	6,337,314	(148,160,686)	(123,813,453)	24,347,233	Reclassification of expenses which were previously classified as contracted services to general expenses N/A
Ward Committees	(4,600,000)	-	(4,600,000)	(4,498,089)	101,911	
General Expenses	(57,478,010)	(34,709,591)	(92,187,601)	(96,759,764)	(4,572,163)	Reclassification of expenses which were previously classified as contracted/outsourced services to general expenses, inflation increase in fuel, computer and telephone expenses..
Total expenditure	(858,515,010)	(33,002,676)	(891,517,686)	(907,258,134)	(15,740,448)	
Operating surplus	(116,516,297)	232,866,523	116,350,226	13,487,000	(102,863,226)	
Loss on disposal of assets and liabilities	-	-	-	(1,483,413)	(1,483,413)	
Fair value adjustments	-	-	-	2,515	2,515	
Inventories losses/write-downs	-	-	-	(47,370)	(47,370)	
	-	-	-	(1,528,268)	(1,528,268)	
Surplus before taxation	(116,516,297)	232,866,523	116,350,226	11,958,732	(104,391,494)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(116,516,297)	232,866,523	116,350,226	11,958,732	(104,391,494)	

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the recoverable amount.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The nature OR type of properties classified as held for strategic purposes are as follows:

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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1.5 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Estimated useful life
Land	Straight line	Infinite
Buildings	Straight line	30 years
Infrastructure - Electricity	Straight line	20 - 100 years
Infrastructure - Roads	Straight line	10 - 100 years
Infrastructure - Water	Straight line	15 -80 years
Infrastructure - Gas	Straight line	20 years
Infrastructure - Sewerage	Straight line	15 -20 years
Infrastructure - Pedestrian malls	Straight line	20 years
Infrastructure - Airports	Straight line	20 years
Access control security measures	Straight line	3 - 5 years
Recreation facilities	Straight line	20 -25 years
Furniture and fittings	Straight line	7 years
Motor vehicles	Straight line	5 - 15 years
Office equipment	Straight line	5 - 7 years
Plant and equipment	Straight line	4 - 15 years

For the detailed useful lives of assets, refer to the municipality's asset management policy

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the the correction of these errors resulted in the following effects.

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Accounting Policies

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	4 years

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Accounting Policies

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

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Accounting Policies

1.7 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

A financial asset is:

- cash;
- a residual interest of another entity; or

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Accounting Policies

1.8 Financial instruments (continued)

- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership as per GRAP 13 appendix 1.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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Accounting Policies

1.9 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Fixed contributions are paid into a separate entity (a fund) and the municipality will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions meet the definition of a defined contribution plan.

Recognition and measurement

When an employee has rendered service to an entity during a reporting period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- (b) as an expense

Moses Kotane Local Municipality

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Accounting Policies

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.16 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summons. The revenue from summonses is recognised on issue.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Moses Kotane Local Municipality

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Accounting Policies

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA as follows:

Irregular expenditure is defined in section 1 of the MFMA as follows:
“irregular expenditure”, in relation to a municipality or municipal entity, means—

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.23 Related parties (continued)

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	April 1, 2020	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	April 1, 2019	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 1, 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	April 1, 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	April 1, 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	April 1, 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	April 1, 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	April 1, 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	April 1, 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	April 1, 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 1, 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	April 1, 2019	Unlikely there will be a material impact

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2019			2018		
	Cost / Valuation	Fair value adjustment	Carrying value	Cost / Valuation	Fair value adjustment	Carrying value
Investment property	155,209,867	-	155,209,867	155,207,352	-	155,207,352

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	155,207,352	2,515	155,209,867

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	155,207,352	155,207,352

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	261,712,921	-	261,712,921	261,712,921	-	261,712,921
Buildings	204,594,369	(93,023,730)	111,570,639	204,594,370	(85,885,969)	118,708,401
Building WIP	753,272	-	753,272	753,272	-	753,272
Infrastructure	4,689,061,094	(2,311,446,146)	2,377,614,948	4,603,232,098	(2,195,958,706)	2,407,273,392
Infrastructure WIP	254,574,419	-	254,574,419	202,712,531	-	202,712,531
Community	454,166,570	(218,198,223)	235,968,347	448,890,883	(204,259,079)	244,631,804
Community assets WIP	13,243,478	-	13,243,478	-	-	-
Plant and machinery	6,223,737	(4,134,149)	2,089,588	8,916,966	(5,731,995)	3,184,971
Furniture and fixtures	52,219,113	(34,047,973)	18,171,140	54,793,720	(30,878,538)	23,915,182
Motor vehicles	67,790,155	(44,825,753)	22,964,402	68,253,486	(39,759,047)	28,494,439
Total	6,004,339,128	(2,705,675,974)	3,298,663,154	5,853,860,247	(2,562,473,334)	3,291,386,913

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	261,712,921	-	-	-	-	-	-	261,712,921
Buildings	118,708,401	-	-	-	-	(7,137,762)	-	111,570,639
Building WIP	753,272	-	-	-	-	-	-	753,272
Infrastructure	2,407,273,392	86,892,924	-	-	-	(116,551,368)	-	2,377,614,948
Infrastructure WIP	202,712,531	133,379,668	-	-	(81,517,780)	-	-	254,574,419
Community	244,631,804	5,316,612	-	-	-	(13,980,069)	-	235,968,347
Community WIP	-	-	18,422,667	-	(5,179,189)	-	-	13,243,478
Plant and machinery	3,184,971	131,592	-	(605,459)	-	(620,964)	(552)	2,089,588
Furniture and fixtures	23,915,182	413,586	-	(1,311,837)	-	(4,742,648)	(103,143)	18,171,140
Motor vehicles	28,494,439	-	-	(46,614)	-	(4,801,511)	(681,912)	22,964,402
	3,291,386,913	226,134,382	18,422,667	(1,963,910)	(86,696,969)	(147,834,322)	(785,607)	3,298,663,154

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Land	261,712,921	-	-	-	261,712,921
Buildings	127,949,885	-	(4,685,291)	(4,556,193)	118,708,401
Building WIP	-	753,272	-	-	753,272
Infrastructure	2,437,417,654	113,544,103	(8,189,026)	(135,499,339)	2,407,273,392
Infrastructure WIP	72,716,407	129,996,124	-	-	202,712,531
Community	347,315,125	19,708,769	(109,477,141)	(12,914,949)	244,631,804
Plant and equipment	3,578,014	262,777	-	(655,820)	3,184,971
Furniture and fixtures	28,221,148	1,649,393	(6,396)	(5,948,963)	23,915,182
Motor vehicles	34,302,317	912,829	(862,853)	(5,857,854)	28,494,439
	3,313,213,471	266,827,267	(123,220,707)	(165,433,118)	3,291,386,913

5. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	76,116,052	(36,336,312)	39,779,740	75,845,834	(24,088,277)	51,757,557

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	51,757,557	(11,977,817)	39,779,740

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5. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	59,350,133	7,913,386	(15,505,962)	51,757,557

Moses Kotane Local Municipality

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6. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	14,000	-	14,000	14,000	-	14,000

Reconciliation of heritage assets - 2019

	Opening balance	Total
Historical monuments	14,000	14,000

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	14,000	14,000

7. Inventories

Maintenance materials	11,678,680	8,727,833
Water	46,268	73,400
Unsold Properties Held for Resale	-	47,370
	11,724,948	8,848,603

Inventory has been restated according to GRAP 3. Refer to Note 35 "Prior Period Adjustments" for the details of the restatement.

8. Receivables from exchange transactions

Bakwena systems - Photocopiers	1,221,711	2,443,423
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Receivable from exchange transactions has been restated according to GRAP 3. Refer to Note 35 "Prior Period Adjustments" for the details of the restatement

9. Receivables from non-exchange transactions

Fines	511,515	403,780
Housing debtors	10,623,599	10,623,599
Other receivables from non-exchange revenue	3,102,750	2,294,553
Sundry Debtors	786,779	786,502
	15,024,643	14,108,434

Receivable from non exchange transactions has been restated according to GRAP 3. Refer to Note 35 "Prior Period Adjustments" for the details of the restatement

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
10. Consumer debtors		
Gross balances		
Rates	316,164,344	261,595,584
Water	563,652,548	456,506,242
Sewerage	16,281,517	14,402,567
Refuse	78,232,723	69,938,651
Water consumption from last reading until 30th	5,417,872	8,532,331
	979,749,004	810,975,375
Less: Allowance for impairment		
Rates	(235,376,772)	(139,141,565)
Water	(460,908,697)	(441,398,012)
Sewerage	(13,152,471)	(14,298,614)
Refuse	(66,324,095)	(69,826,472)
	(775,762,035)	(664,664,663)
Net balance		
Rates	80,787,572	122,454,019
Water	102,743,851	15,108,230
Sewerage	3,129,046	103,953
Refuse	11,908,628	112,179
Water consumption from the last readings	5,417,872	8,532,331
	203,986,969	146,310,712
Included in above is receivables from exchange transactions		
Water	102,743,851	15,108,230
Sewerage	3,129,046	103,953
Refuse	11,908,628	112,179
Water consumption from the last readings	5,417,872	8,532,331
	123,199,397	23,856,693
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	80,787,572	122,454,019
Net balance	203,986,969	146,310,712
Rates		
Current (0 -30 days)	11,412,502	11,878,112
31 - 60 days	9,188,048	10,153,183
61 - 90 days	8,003,001	9,128,289
91 - 120 days	7,904,656	8,805,288
121 + days	279,647,324	221,630,712
Provision for bad debts	(235,367,959)	(139,141,565)
	80,787,572	122,454,019

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
10. Consumer debtors (continued)		
Water		
Current (0 -30 days)	18,618,499	27,783,430
31 - 60 days	19,177,710	14,546,203
61 - 90 days	19,177,710	14,141,758
91 - 120 days	5,578,022	10,837,472
121 + days	501,100,607	389,197,379
Provision for bad debts	(460,908,697)	(441,398,012)
	102,743,851	15,108,230
Sewerage		
Current (0 -30 days)	248,565	401,882
31 - 60 days	245,282	276,157
61 - 90 days	241,128	261,816
91 - 120 days	281,403	284,198
121 + days	15,265,139	13,178,514
Provision for bad debts	(13,152,471)	(14,298,614)
	3,129,046	103,953
Refuse		
Current (0 -30 days)	1,212,355	1,417,249
31 - 60 days	1,206,538	1,522,339
61 - 90 days	1,199,100	1,509,316
91 - 120 days	1,185,549	1,489,395
121 + days	73,429,181	64,000,352
Provision for bad debts	(66,324,095)	(69,826,472)
	11,908,628	112,179
Water consumption from last reading until the 30th		
Current (0 -30 days)	5,417,872	8,532,331
Reconciliation of allowance for impairment		
Balance at beginning of the year	(664,664,663)	(486,241,414)
Contributions to allowance	(133,335,576)	(178,423,249)
Debt impairment written off against allowance	22,238,204	-
	(775,762,035)	(664,664,663)
11. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	20,000	20,000
Bank balances	11,849,261	7,014,688
Short-term deposits	52,823,887	174,748
	64,693,148	7,209,436

Moses Kotane Local Municipality

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11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
Standard bank current - Account number: 41980182	9,163,924	1,094,392	-	9,180,325	(70,077)	-
Call MIG Standard Bank - Account number: 228810957-004	40,686,241	624,427	-	41,001,789	624,427	-
Call MKLM Standard Bank - Account number: 228810957	48,064	130,681	-	48,277	130,681	-
WSIG Account NKLM MUNIC INFRA - Account number: 228810957	11,311,123	-	-	11,416,918	-	-
ABSA Rusternburg Branch - Account number: 4050414471	1,795,791	1,726,005	8,277,624	1,798,407	-	8,092,164
Housing Account - Account number: 4059219109	47	986	432,597	47	985	436,716
Traffic Account - Account number: 4070118019	403,736	343,923	151,731	381,289	345,281	156,678
Petty cash	20,000	-	-	20,000	-	-
ABSA Fixed deposit -12 months Eskom Account number: 2062250801	330,999	307,191	283,977	356,855	307,191	305,294
Standard Bank Borongwa - Account number: 41980255	376,093	-	-	306,550	-	-
Traffic - Account number: 41980247	182,691	-	-	182,691	-	-
Total	64,318,709	4,227,605	9,145,929	64,693,148	1,338,488	8,990,852

12. Finance lease obligation

Minimum lease payments due

- within one year	-	1,187,051
- in second to fifth year inclusive	-	-
- later than five years	-	-

Present value of minimum lease payments

-	1,187,051
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The average lease term is between 3 to 5 years and the average effective borrowing rate was between 6,1% and 10% interest dates are coupled to prime and CPI Index at the contract date. The municipality's obligation under finance leases are secured by the lessor's chargeover the leased assets.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	43,653,570	936,299
Library Grant	477,899	1,338,669
Water and Sanitation Grant	15,295,304	7,827,138
EPWP Grant	347,260	-
PMU Grant	1,313,215	1,369,837
	61,087,248	11,471,943

Moses Kotane Local Municipality

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13. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	11,471,943	13,004,975
Additions during the year	622,397,277	553,549,343
Income recognition during the year	(572,781,972)	(555,082,375)
	61,087,248	11,471,943

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. See note for reconciliation of grants from National/Provincial Government. These amounts are invested in a ring-fenced investment until utilised.

14. Other financial liabilities

At amortised cost

INCA annuity loan	14,333,755	14,704,767
ABSA annuity loan	6,086,357	7,520,159
DBSA	23,409,791	24,068,468
	43,829,903	46,293,394

Total other financial liabilities

43,829,903	46,293,394
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Non-current liabilities

At amortised cost	31,322,416	39,207,470
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Current liabilities

At amortised cost	12,507,487	7,085,924
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Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

15. Provisions

Reconciliation of provisions - Restatements of notes to the financial statements

	Opening Balance	Current Service Cost	Utilised during the year	Actuarial Loss / (Gain)	Change in provision	Interest	Total
Environmental rehabilitation	26,410,844	-	(11,585,615)	-	1,184,881	1,109,001	17,119,111
Long-service awards	15,607,093	1,370,970	(2,006,413)	(840,825)	-	1,259,297	15,390,122
Workmen's compensation	836,640	-	-	-	-	-	836,640
	42,854,577	1,370,970	(13,592,028)	(840,825)	1,184,881	2,368,298	33,345,873

Reconciliation of provisions - 2018

	Opening Balance	Current- Service Cost	Utilised during the year	Actuarial Loss/ (Gain)	Change in provision	Interest	Total
Environmental rehabilitation	29,829,314	-	-	-	(4,344,625)	926,155	26,410,844
Long-service awards	14,138,129	1,286,880	1,098,723	(2,062,416)	-	1,145,777	15,607,093
Workmen's compensation	1,000,000	-	(108,627)	-	(54,733)	-	836,640
	44,967,443	1,286,880	990,096	(2,062,416)	(4,399,358)	2,071,932	42,854,577

Non-current liabilities	30,917,922	28,568,320
Current liabilities	2,427,951	14,286,257
	33,345,873	42,854,577

Environmental rehabilitation provision

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

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15. Provisions (continued)

In terms of the licensing of the landfill refuse sites, the municipality will incur rehabilitation costs to restore the site at the end of its useful life. Provision has been made for the net present value of the restoration costs.

Assumptions Used

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date.

The average of the CPI for the last quarter amounted to 4.1947%.

The government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

- For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
- For landfills with an expected remaining life of four or five years, the rate associated with a maximum period of 5 years is used.
- For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

Employee benefit cost provision

The Municipality offers all its employees long service award for employees that have been with the Municipality for more than 10 years and every 5 years thereafter

Assumptions Used

Key Financial Assumption

Assumption	Value p.a.
Discount rate	8.13%
General earnings inflation rate (long-term)	5.53%
<i>Net effective discount rate</i>	<i>2.46%</i>

The earnings used in the valuation include an increase on 1 July 2019 of 6.50% as per the SALGBC Circular No.: 01/2019. The next earnings increase was assumed to take place on 1 July 2020

In estimating the unfunded liability for LSA of Moses Kotane Local Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions. **Financial Assumptions**

It is difficult to predict future investment returns and earnings inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate

Moses Kotane Local Municipality

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15. Provisions (continued)

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.13% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.13% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.97%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the JSE after the market close on 28 June 2019

Introduction

In estimating the unfunded liability for LSA of Moses Kotane Local Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

Financial Assumptions

It is difficult to predict future investment returns and earnings inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve. Consequently, a discount rate of 8.13% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.13% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.97%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the JSE after the market close on 28 June 2019

Earnings Inflation Rate

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the LSA are based on an employee's earnings at the date of the award.

The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Earnings Escalation. The latter is considered under demographic assumptions.

General Earnings Inflation

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

Moses Kotane Local Municipality

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15. Provisions (continued)

The expected inflation assumption of 4.53% was obtained from the differential between market yields on index-linked bonds (2.97%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.13%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.13\%-0.50\%)/(1+2.97\%))-1$.

Thus, a general earnings inflation rate of 5.53% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.46%.

It has been assumed that the next earnings increase will take place on 1 July 2020. This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the LSA are based on an employee's earnings at the date of the award.

The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Earnings Escalation. The latter is considered under demographic assumptions.

General Earnings Inflation

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 4.53% was obtained from the differential between market yields on index-linked bonds (2.97%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.13%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.13\%-0.50\%)/(1+2.97\%))-1$.

Thus, a general earnings inflation rate of 5.53% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.46%.

It has been assumed that the next earnings increase will take place on 1 July 2020.

Key Demographic Assumptions

Assumption	Value
Average retirement age	62
Mortality during employment	SA 85-90
Withdrawal from service (sample annual rates)	See Table A2.2

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

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15. Provisions (continued)

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA.

We have conducted GRAP 25 actuarial valuations for about 200 municipalities across South Africa over a period of about 15 years, which has enabled us to generate a large database relating to current and former municipal employees. Using this information, we recently performed analyses to assess appropriate ballpark-levels for the demographic assumptions required in municipal GRAP 25 actuarial valuations. The following assumptions were revised to reflect the results of our analyses: average retirement age and withdrawal rates.

Promotional Earnings Scale

The annual inflation rates below are in addition to the General Earnings Inflation assumption of 5.53% per annum for all employees.

Age band	Additional promotional scale
20 – 24	5.0%
25 – 29	4.0%
30 – 34	3.0%
35 – 39	2.0%
40 – 44	1.0%
> 44	0.0%

Average Retirement Age

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement.

Pre-retirement Mortality

SA85-90 ultimate table, adjusted down for female lives.

Withdrawal from Service

If an employee leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

This Valuation		Previous Valuation	Age	Females	Males
Age	Females	Males	20	9%	9%

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand			2019	2018
15. Provisions (continued)				
20	24%	16%	25	8%
25	24%	16%	30	6%
30	18%	12%	35	5%
35	15%	10%	40	5%
40	10%	8%	45	4%
45	6%	6%	50	3%
50	4%	4%	55	0%
55	2%	2%	> 55	0%
> 55	0%	0%		
16. Payables from exchange transactions				
Trade payables			100,332,587	97,308,539
Payments received in advanced			54,310,380	32,259,428
Other payables			5,489,958	4,306,557
Accrued leave pay			26,260,984	24,192,918
Retentions			39,842,050	35,188,325
			226,235,959	193,255,767
17. Revenue				
Service charges			154,198,624	136,000,077
Interest received			50,562,829	66,035,201
Commissions received			161,343	152,386
Rental income			42,260	7,054
Sale of stands/land			300,000	460,000
Other income			1,482,551	936,242
Property rates			134,800,237	122,556,701
Government grants & subsidies			572,781,972	555,082,375
Public contributions and donations			3,910,239	-
Fines, Penalties and Forfeits			2,505,080	5,315,890
			920,745,135	886,545,926
The amount included in revenue arising from exchanges of goods or services are as follows:				
Service charges			154,198,624	136,000,077
Interest received			50,562,829	66,035,201
Commissions received			161,343	152,386
Rental income			42,260	7,054
Sale of stands/land			300,000	460,000
Other income			1,482,551	936,242
			206,747,607	203,590,960

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
17. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	134,800,237	122,556,701
Transfer revenue		
Government grants & subsidies	572,781,972	555,082,375
Public contributions and donations	3,910,239	-
Fines, Penalties and Forfeits	2,505,080	5,315,890
	713,997,528	682,954,966
18. Service charges		
Sale of water	147,279,422	123,283,679
Sewerage and sanitation charges	2,273,943	2,254,605
Refuse removal	4,645,259	10,461,793
	154,198,624	136,000,077
19. Other income		
The amount included in other income arising from exchanges of goods or services are as follows:		
Clearance certificates	62,613	12,815
Drainage fees	417	447
Sale of tender documents	547,900	760,400
Valuation services	1,312	1,975
Cemetery	15,477	15,478
Town planning	106,926	55,947
Staff Recoveries	175,579	89,180
Photocopies and faxes	41,819	-
Advertisements	306,718	-
Water connections	10,099	-
LG Seta refund	213,690	-
	1,482,550	936,242

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Figures in Rand	2019	2018
20. Property rates		
Rates received		
Commercial	39,768,167	36,064,635
State	79,490,456	71,083,831
Residential	8,217,909	6,387,690
Mining	9,832,515	9,276,720
Industrial	5,435	5,238
Less: Income forgone	(2,514,245)	(261,413)
	134,800,237	122,556,701
Valuations		
Residential	1,699,265,772	1,615,666,772
Commercial	545,472,000	246,001,000
Industrial	174,463,000	169,995,000
State	1,085,800,000	1,292,670,000
Churches	13,665,000	12,915,000
Mining	125,840,000	125,840,000
Other holiday resorts	3,500,000	160,393,000
Sun City	640,000,000	640,000,000
Municipal	70,392,000	136,410,000
Farms and Tribal Land	1,972,537,000	1,815,644,000
Vacant Land	152,267,000	87,206,000
	6,483,201,772	6,302,740,772

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2016. The valuations were done by Mod Hope Properties valuers on behalf of the Municipality.

The new general valuation will be implemented on 01 July 2020.

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
21. Government grants and subsidies		
Operating grants		
Equitable share	386,733,274	357,438,446
Expanded Public Works Grant	652,739	1,000,000
Library grant	1,673,048	1,101,855
Project Management Unit Grant	2,338,498	2,765,163
Financial Management Grant	1,700,000	1,700,000
	393,097,559	364,005,464
Capital grants		
Municipal Infrastructure Grant	127,229,717	137,343,701
Provincial Infrastructure Grant	-	6,560,348
Water Services Infrastructure Grant	52,454,696	47,172,862
	179,684,413	191,076,911
	572,781,972	555,082,375
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	936,299	-
Current-year receipts	170,883,287	138,280,000
Conditions met - transferred to revenue	(127,229,717)	(137,343,701)
Roll over denied	(936,299)	-
	43,653,570	936,299
Library Grant		
Balance unspent at beginning of year	1,338,669	1,090,523
Current-year receipts	916,000	1,350,000
Conditions met - transferred to revenue	(1,673,048)	(1,101,854)
Refund	(103,722)	-
	477,899	1,338,669
Department of water services and Refurbishment Grant		
Balance unspent at beginning of year	7,827,138	-
Current-year receipts	67,750,000	61,560,348
Conditions met - transferred to revenue	(52,454,697)	(53,733,210)
Roll over denied	(7,827,137)	-
	15,295,304	7,827,138
Expanded Public Works Grant		
Balance unspent at beginning of year	-	958,190
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(652,740)	(1,000,000)
Roll over denied	-	(958,190)
	347,260	-
Financial Management Grant		

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Figures in Rand	2019	2018
21. Government grants and subsidies (continued)		
Current-year receipts	1,700,000	1,700,000
Conditions met - transferred to revenue	(1,700,000)	(1,700,000)
	<u>-</u>	<u>-</u>
MIG (PMU) Grant		
Balance unspent at beginning of year	1,369,837	-
Current-year receipts	3,651,713	4,135,000
Conditions met - transferred to revenue	(2,338,498)	(2,765,163)
Roll over denied	(1,369,837)	-
	<u>1,313,215</u>	<u>1,369,837</u>

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22. Employee related costs		
Basic	129,865,377	123,192,232
Bonus	8,877,255	7,842,095
Medical aid - company contributions	10,025,952	9,176,605
UIF	872,493	861,739
SDL	1,438,981	1,479,830
Leave pay provision charge	8,508,318	2,996,316
Bargaining council	62,802	62,084
Travel, motor car, accommodation, subsistence and other allowances	1,028,593	883,395
Overtime payments	10,765,527	9,843,825
Long-service awards	1,789,442	2,675,603
Acting allowances	1,971,132	2,090,485
Car allowance	-	15,000
Housing benefits and allowances	411,318	373,279
Standby allowance	2,601,536	3,059,665
Pension fund company contributions	23,254,825	21,540,575
Shift allowance	230,351	213,278
	201,703,902	186,306,006
Remuneration of municipal manager		
Annual Remuneration	1,211,748	858,495
Travel Allowance	222,593	148,395
Bonuse	93,309	-
Contributions to UIF, Medical and Pension Funds	518,813	32,315
Total paid	(2,046,463)	(1,039,205)
	-	-
MV Letsoalo was appointed as the Municipal Manager in October 2017		
Remuneration of Acting Municipal Manager		
Annual Remuneration	32,578	35,858
	-	-
Total paid out	(32,578)	(35,858)
	-	-
TT Chiloane was the acting Municipal Manager in January and February 2019		
Remuneration of Chief Financial Officer		
Annual Remuneration	696,721	-
Travel Allowance	162,000	-
Contributions to UIF, Medical and Pension Funds	160,562	-
Total Paid	(1,019,283)	-
	-	-
The Chief Finance Officer M Mkhize was appointed in October 2018		
Remuneration of Acting Chief Financial Officer		
Annual Remuneration	65,572	43,933
Total Paid	(65,572)	(43,933)
	-	-

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
22. Employee related costs (continued)		
H Fourie acted as a CFO from July to September 2018		
Remuneration of community services director		
Annual Remuneration	407,371	1,137,323
Contributions to UIF, Medical and Pension Funds	21,044	46,752
Paid Out	(428,415)	(1,184,075)
	<u>-</u>	<u>-</u>
The community service director CK Molokoane terminated his contract in October 2018		
Remuneration of acting community services director		
Annual Remuneration	96,740	-
Paid out	(96,740)	-
	<u>-</u>	<u>-</u>
Mr ND Moeng has been acting Community Service director from November 2018 to date		
Remuneration of infrastructure and technical services director		
Annual Remuneration	1,128,730	1,045,350
Travel Allowance	144,000	144,000
Contributions to UIF, Medical and Pension Funds	1,890	1,884
Total paid	(1,274,620)	(1,191,234)
	<u>-</u>	<u>-</u>
TT Chiloane is the director infrastructure and technical services		
Remuneration of acting infrastructure and technical services		
Annual Remuneration	36,538	-
Paid out	(36,538)	-
	<u>-</u>	<u>-</u>
BS Maseloane acted as the director infrastructure and technical services in November 2018.		
Remuneration of corporate service director		
Annual Remuneration	-	229,427
Car Allowance	-	15,000
Contributions to UIF, Medical and Pension Funds	-	52,343
Paid out	-	(296,770)
	<u>-</u>	<u>-</u>
PP Shikwane corporate service director terminated his contract in September 2017.		
Remuneration of acting corporate service director		
Annual Remuneration	335,930	138,530
Paid out	(335,930)	(138,530)
	<u>-</u>	<u>-</u>
T Jalvan acted as the corporate service director from September 2017 until December 2018.		

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
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22. Employee related costs (continued)

FD Radiokana acted from January to February 2019

Remuneration of planning and development director

Annual Remuneration	-	867,998
Car Allowance	-	66,000
Contributions to UIF, Medical and Pension Funds	-	156,928
Paid out	-	(1,090,926)
	<u>-</u>	<u>-</u>

Planning and Development director AM Sefanyetso terminated his contract in May 2018.

Remuneration of acting planning and development director

Annual Remuneration	163,311	-
Paid out	(163,311)	-
	<u>-</u>	<u>-</u>

MV Mope acted as the director planning and development from June 2018 to December 2018.

FT Mogolwane acted from January 2019 to February 2019

23. Remuneration of councillors

Mayor	567,471	541,211
Single WHIP	403,168	390,169
Executive Committee	3,515,940	5,491,970
Speaker	453,976	432,968
Councillors	10,023,536	9,240,361
Councillors pension and medical aid contributions	2,685,461	2,491,324
Traveling allowance	5,121,049	5,022,262
Cell phone allowance	2,741,809	-
Oversight committee	-	597,450
	<u>25,512,410</u>	<u>24,207,715</u>

In-kind benefits

The Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by the Municipality. The Mayor has use of a Council owned vehicle for official duties.

The Council has complied with the provision of Section 7(3) of the Remuneration of Public Office Bearers Act, and concurrence for the implementation of the Council Resolution item number 121/01/2018 in line with the government gazette number 41335 Notice 1440, dated 15 December 2017.

24. Depreciation and amortisation

Property, plant and equipment	147,836,543	168,068,096
Intangible assets	11,977,817	15,505,962
	<u>159,814,360</u>	<u>183,574,058</u>

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Figures in Rand	2019	2018
25. Finance costs		
Non-current borrowings	6,177,546	6,177,263
26. Debt impairment		
Bakwena Systems	1,221,711	-
Consumer Debtors	128,113,940	167,279,578
Traffic Fines	2,081,084	5,364,505
	131,416,735	172,644,083
27. Bulk purchases		
Water	98,807,858	87,863,925
28. General expenses		
Audit fees	3,430,412	2,568,089
Advertising	5,739,965	10,025,897
Bank charges	516,386	462,100
Cleaning	403,962	1,059,919
Consulting and professional fees	14,481,272	13,482,949
Consumables	4,561,145	4,547,246
Catering services	3,085,940	4,662,843
Entertainment	3,047,681	6,036,844
Insurance	1,583,808	1,150,605
Community development and training	1,215,760	600,703
Conferences and seminars	-	55,148
Motor vehicle expenses	977,095	745,495
Fuel and oil	14,626,088	13,198,835
Postage and courier	4,983	7,639
Printing and stationery	1,507,771	2,682,108
Software expenses	422,651	4,304,283
Staff welfare	187,381	327,923
Subscriptions and membership fees	2,926,608	4,315,016
Telephone and fax	13,571,238	12,298,697
Training	125,846	136,699
Travel - local	4,662,912	4,101,229
Electricity	11,539,199	17,095,908
Uniforms	662,301	2,378,147
Other expenses	-	36,289
Learnerships and internships	4,192,928	4,860,117
Supply of indigent services	1,000,000	618,547
Chemicals	2,286,432	4,785,716

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
29. Distribution losses		
Reconciliation of water losses		
Kilolitres bought	15,724,679	15,582,173
Kilolitres sold	(12,945,861)	(13,685,836)
Kilolitres lost	2,778,819	1,896,337
Value of loss	18,186,510	11,247,701
Percentage of losses	18	12
Reasons for losses		
Burst pipes		
Undetected leaks underground		
Open spaces & sports fields that are still unmetered		
30. Cash generated from operations		
Surplus (deficit)	11,958,733	(55,445,916)
Adjustments for:		
Depreciation and amortisation	159,814,360	180,939,080
Gain on sale of assets and liabilities	1,483,413	100,554
Donations	(3,910,239)	-
inventory write off	47,370	-
Fair value adjustments	(2,515)	(31,124)
Interest on overdue accounts	(45,873,512)	-
Debt impairment	131,416,735	172,644,083
Movements in provisions	(9,508,704)	30,062,179
Movement in tax receivable and payable	3,111,621	784
Changes in working capital:		
Inventories	(2,923,715)	9,497,220
Receivables from exchange transactions	(601)	(883,779)
Consumer debtors	(145,138,321)	(30,740,630)
Other receivables from non-exchange transactions	(2,997,294)	(14,108,434)
Vat receivable	33,746,782	-
Payables from exchange transactions	32,980,192	118,294,478
VAT	-	(68,253,762)
Unspent conditional grants and receipts	49,615,305	10,513,753
	213,819,610	352,588,486

Moses Kotane Local Municipality

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Figures in Rand	2019	2018
31. Commitments		
Authorised capital expenditure		
• Property plant and equipment	153,058,461	117,523,882
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	97,784,615
Total capital commitments		
Already contracted for but not provided for	153,058,461	117,523,882
Not yet contracted for and authorised by accounting officer	-	97,784,615
	153,058,461	215,308,497
Authorised operational expenditure		
• Corporate	329,312,581	344,256,062
Total operational commitments		
Authorised	329,312,581	344,256,062
Total commitments		
Total commitments		
Capital expenditure	153,058,461	215,308,497
Operational expenditure	329,312,581	344,256,062
	482,371,042	559,564,559

This committed expenditure relates to infrastructure projects and operational expenditure and will be financed by grants from national treasury

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32. Contingencies

The municipality has contingent liabilities for R 65 883 712 (2018: R 65 999 055) relating to unresolved legal cases. The total amount is made up of the following cases.

1. Fencecor Construction

Fencecor Construction was a sub-contractor for construction of the new Mogwase Waste Disposal Site. Fencecor is suing the Municipality for payment of **R 2 842 111** which flows from a cession/direct payment agreement between the main contractor, Fencecor and the Municipality.

The Municipality is defending the matter since maximum amount of cession has already been paid and exceeded. The case is currently in Court and we are awaiting finalisation and verdict.

Case handled by Van Rooyen, Thlape, Wessels Attorneys in Mafikeng.

2. NWDC

The Municipality is in dispute with NWDC regarding payment of property rates. NWDC owes the Municipality in excess of **R 36 Million** from July 2002. In return NWDC claims compensation from the Municipality for infrastructure installed in Bodirelo in the 1980's to the amount of **R 18 Million** as well as arrear rental amounts for office accommodation in Bodirelo. The matter was referred to Provincial and National Treasury for mediation and possible arbitration.

The Municipality have reached an agreement with NWDC whereby mutual payment by the parties for their respective dues will start on 1 October 2014. The Municipality is paying its dues but NWDC is not..

The arrear amounts due still needs to be resolved and the parties will consider all options, including high level political intervention and arbitration.

3. Sitona Mining

Sitona Mining is a sub-contractor of Lefika La Thaba, a contractor that was appointed by the Municipality. Sitona is claiming an amount of **R 463 525** plus interest and costs because they allege that the Municipality did not honour the direct payment agreement signed between all the parties.

The Municipality is defending the claim based on the fact that Sitona never submitted an invoice for payment in terms of the direct payment agreement.

Still in progress. The case is handled by Sakkie Smith Attorneys in Mogwase.

4. Van Heerden Construction

Van Heerden Construction is a sub-contractor of Lefika La Thaba, a contractor that was appointed by the Municipality. Van Heerden is claiming R 1 078 782. Van Heerden obtained a Court order and Writ of execution against Lefika La Thaba, Dr. Mokgothu, the owner of Lefika La Thaba as well as the Municipality.

It was established that the Municipality has an amount of R 833 000 left on the project. The amount was paid over to the trust account of Sakkie Smith Attorneys for safekeeping pending finalisation of the matter. .

The case is handled by Sakkie Smith Attorneys in Mogwase and is still in progress.

5. Casper Jacobs Construction

The contractor is claiming R 968 621 on three different projects from the Municipality. The Municipality is of the view that the claims have prescribed and entered a plea to this effect.

The case is handled by Sakkie Smith Attorneys in Mogwase and is still in progress.

6. Ama-Ndebele Nation Ledig

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32. Contingencies (continued)

The Ama-Ndebele Nation in Ledig took the Municipality to court demanding an undertaking in writing to supply water for agriculture, mining and industry. The Municipality is defending the matter on two grounds:

Whether the Ama-Ndebele Nation is recognised as an authority; and

That water for mining and agriculture can only be considered if basic water services of communities have been addressed.

Still in progress. The case is handled by Sakkie Smith Attorneys.

7. Rakidi

Claim for **R 74 715.00** for written-off taxi allegedly caused by municipality's driver Mr. Boqo. Insurance needs blood test results before paying out but SAPS not willing to release blood test results until case is finalised. Sheriff attached one municipal vehicle but not yet removed.

Still in progress. Case is handled by Pretorius Attorneys.

8. Claim for death-Konopi

Claim for **R 9,4 Million** (4,7 Million x 2 children) for death of breadwinner on road between Sun City and Mabeskraal. Municipality is the second defendant and the Department of Public Works the first defendant. Municipality is defending the case based on fact the municipality is not responsible for maintenance of the road and therefore not liable for death.

Still in progress. Case is handled by Pretorius Attorneys.

9. Mafoko Brothers

Claim for **R 536 957.91** on Tender 004/MKLM/2015/2016. Still investigating.

10. Department of Local Government and Human Settlements

In the past the municipality received funds from the Department of Local Government and Human Settlements to be utilised for the Housing Subsidy System. Of the funds received the department has concluded that there is an unspent portion of R 32 519 000 by the municipality.

The municipality is challenging this claim.

33. Related parties

Relationships

Accounting Officer

Councillors

Members of key management

Refer to accounting officer's report note

Refer to note 23

Refer to note 22

Related party transactions

Awards made to the spouses of employees

Bothale Consulting

613,201

1,580,085

Boitumelo Molefe (HOU internal Audit) is a related party of Bothale Consulting and the amount paid during the year to the company was R 613 201 and R 1 580 085 last year.

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34. Change in accounting estimate

The estimated remaining useful life of the assets was reviewed and amended to ensure an accurate systematic allocation of the depreciable amount over the remaining useful life.

The effect of the change in estimate are as follows:

Statement of financial performance

Decrease in depreciation	4 173 981.
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Statement of financial position

Increase in property plant and equipment	4 173 981
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35. Prior period errors

The correction of the error(s) results in adjustments as follows

1. Inventory was overstated by R 10 475 425 in the prior year as a result of land that was recognised as held for sale. The land is registered in the name of the Municipality but however the Municipality does not have control of the property and does not expect any future economic benefits to flow to the entity from the land. Maintenance materials was understated by R 9 631 as a result of incorrect accounting.

2. Receivable from exchange transactions was overstated by R 7 251 496 from housing debtors which was classified as receivables from exchange transaction instead of non exchange transactions. In addition receivables from exchange transactions was also understated by R 885 209 due to calculation error.

3. Receivable from non exchange transactions was understated by R 7 251 496 from housing debtors that was disclosed as receivable from exchange transaction instead of receivable from non exchange transactions. In addition receivable from non exchange transaction was also understated by R 1 694 871 as result of calculation errors made on the reconciliations.

4. During the current year it was noted that Vat was overstated by R 8 068 276 as a result of incorrect accounting.

5. Consumer debtors were overstated by R 136 367 313 in the 2017/18 financial year as a result of the accounting policy not aligned to the requirements of GRAP. The accounting policy did not provide for impairment on government debtors. In addition debt impairment for the prior year was also understated by R 48 805 205.

6. In the prior year cash and cash equivalent was understated by R 5 850 948 as result of receipts not updated on the cashbook on time and also payments made on the last day of the year only reflecting in the next financial year.

7. The opening balances for the following assets were discovered to have been mistated due to omissions and incorrect accounting made on the fixed asset register: Investment property was overstated by R 10 082 648, Property, plant and equipment was understated by R 114 892 628 and intangible assets were overstated by R 6 884 294. In addition depreciation was understated by R 11 611 324.

8. The current portion of the finance lease liabilities was understated by R 957 964 and the non current portion was overstated by the same amount due to classification error.

9. Payables from exchange transactions was understated in the prior year due to the following: trade payables were understated by R 18 390 158 due to expenditure incurred in 2017/18 financial year that was only paid in 2018/19 financial year, payments received in advance was understated by R 7 514 381 arising from unallocated receipts that were not updated on the cashbook, other payables were understated by R 2 260 097 as a result of incorrect accounting and retentions were understated by R 2 474 414 because of vat that was not raised on the retentions and also omissions made on the retentions register

10. Rental income was overstated by R 78 199 as a result of billing error in the prior years.

11. Employee related costs were understated in the prior year as a result of classification error in the prior year. The employee related costs arising from the long service awards provision and leave pay provision were disclosed as general expenses in the prior year.

12. Outsourced services were overstated in the prior year as a result of classification error. The expenditure has now been classified as repairs and maintenance.

13. General expenses and contracted services were mistated in the prior year as a result of incorrect accounting and classification errors.

14. Finance costs was overstated by R 1 145 494 due to classification error..

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35. Prior period errors (continued)

The correction of these errors resulted in the following effects

Effects of the errors on accumulated surplus.

Decrease in Accumulated Surplus due to error 1	(10,465,794)
Decrease in Accumulated Surplus due to error 2	885,209
Decrease in Accumulated Surplus due to error 3	1,694,871
Decrease in Accumulated Surplus due to error 4	(8,068,276)
Decrease in Accumulated Surplus due to error 5	(136,367,314)
Decrease in Accumulated Surplus due to error 7	66,880,078
Decrease in Accumulated Surplus due to error 9	7,997,239
	(77,443,987)

36. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories		19,314,397	10,465,794	-	8,848,603
Receivables from exchange transactions		8,898,629	885,209	(7,251,496)	2,443,423
Receivables from non exchange transactions		5,162,067	1,694,871	7,251,496	14,108,434
Vat receivables		36,593,422	8,068,276	-	28,525,146
Consumer debtors		282,678,025	(136,367,314)	-	146,310,711
Investment property		165,290,000	(10,082,648)	-	155,207,352
Property plant and Equipment		3,176,494,885	114,892,628	-	3,291,387,513
Cash and Cash equivalent		1,358,488	5,850,948	-	7,209,436
Intangible Assets		57,596,228	(5,838,671)	-	51,757,557
		-	-	-	-
		-	-	-	-
Payables from exchange transactions		(163,100,348)	(7,997,239)	-	(193,255,767)
Provisions		(43,154,577)	300,000	-	(42,854,577)
		3,547,131,216	(18,128,146)	-	3,469,687,831

Statement of financial performance

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Rental Income		85,253	(78,199)	-	7,054
Other Income		941,162	(4,920)	-	936,242
Employee related costs		(180,634,674)	-	(5,671,332)	(186,306,006)
Debt Impairment		(123,838,875)	(48,805,208)	-	(172,644,083)
Contracted Services		(80,749,696)	(612,444)	-	(81,362,140)
Depreciation		(169,327,756)	(11,611,324)	-	(180,939,080)
Outsourced Services		(72,728,922)	-	72,728,922	-
Repairs and Maintenance		-	(6,989,567)	(72,728,922)	(79,718,489)
General expenditure		(160,594,310)	39,523,481	4,525,838	(116,544,991)
Finance Costs		(7,323,040)	-	1,145,494	(6,177,546)
Surplus for the year		(794,170,858)	(28,578,181)	-	(822,749,039)

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37. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity risk management by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities..

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Potential concentrations of credit risk consist mainly of receivables from exchange transactions, receivables from none exchange transactions, VAT receivable, prepayments, consumer debtors and cash and cash equivalents.

The Municipality manages credit risk in its borrowing and investment activities by dealing with well established financial institutions of high credit standing, and by spreading its exposure over a range of institutions in accordance with its approved investment policies. Credit risk relating to consumer debtors is managed in accordance with the Municipality's credit control and debt collection policy. The Municipality's credit exposure is spread over a large number and a wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad debts and allowance for doubtful debts. Additional information relating to the analysis of consumer debtors is given in the accounting policies and the consumer debtors note in the financial statements.

The municipality does not have any credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings. The carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to the credit risk without taking into account the value of any collateral obtained.

Financial instruments relating to credit risks were not quantified in the credit risks note disclosed in the prior year.

Market risk

Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2019

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37. Risk management (continued)

Interest rate risk

Interest rate risk is defined as that fair value of future cashflows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentration of interest rate risk consist mainly of variable rate deposit investments, long term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counter party exposures from its money market investment operations by only dealing with well established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made.

38. Going concern

We draw attention to the fact that although the municipality reported a deficit of R 118 158 122 for the year ended June 30, 2019, the municipality had an accumulated surplus of R 3,422,707,577 and that the municipality's total assets exceed its liabilities by R 3,422,707,577. However current liabilities exceeds current assets by R 3,606,427

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

We are experiencing cashflow challenges as a result of low debtors collection rate which has an impact on our ability to pay our creditors timeously. The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

39. Unauthorised expenditure

Opening balance	353,908,100	90,796,425
Prior period error on opening balance	-	26,826,253
Unauthorised expenditure-current year	26,732,928	151,266,242
Prior period error adjustment	-	85,019,180
Unauthorised expenditure	380,641,028	353,908,100

Prior period errors are differences between unauthorised expenditure per AFS line items as previously disclosed compared to unauthorised expenditure per budget vote.

The Unauthorised expenditure was mainly due to over spending on contracts amounts. The current total balance including the opening balance will be dealt with in accordance with the MFMA requirements.

The Unauthorised expenditure was reported to Council and has resolved on condoning the expenditure (refer to item 137/03/2019), The Municipality is in the process of complying with MFMA section 170 condonement.

40. Fruitless and wasteful expenditure

Opening balance	9,774,358	8,986,252
Prior period error	-	788,106
Fruitless and wasteful expenditure-Current year	672,013	-
	10,446,371	9,774,358

The prior period error resulted from interest paid due to late payments on supplier accounts that was erroneously omitted and not disclosed.

The Municipality incurred interest as result of late payment of Magalies water, Telkom and Eskom accounts.

The Fruitless and wasteful expenditure was reported to Council and has resolved on condoning the expenditure (refer to item 137/03/2019), The Municipality is in the process of complying with MFMA section 170 condonement.

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
41. Irregular expenditure		
Opening balance	467,822,417	421,458,505
Add: Irregular Expenditure - current year	52,693,717	14,940,815
Investigated - Not Irregular expenditure	-	(5,231,252)
Prior period error	-	36,654,349
Deviations	11,953,380	-
	532,469,514	467,822,417

Details of irregular expenditure – current year

Three routes not attached	6,718,557	1,359,970
Non disclosure of interest	54,693	-
Tax non-compliance	875,518	24,121
Regulation 32 appointments	35,657,710	36,654,349
Competitive bidding process not followed	4,676,149	-
SCM processes not followed	4,711,090	4,970,256
Deviations	11,953,380	3,355,216
	64,647,097	46,363,91

The prior period error resulted from the inclusion of SCM regulation 32 appointments that were erroneously omitted and not disclosed and a correction of total irregular expenditure amount after investigations.

The Irregular expenditure was reported to Council and has resolved on referring the expenditure to MPAC (refer to item 137/03/2019), The Municipality is in the process of complying with MFMA section 170 condonement.

All possible irregular expenditure is being investigated, once all technical processes are finalised and satisfied that transactions are indeed irregular, the register will then be updated to include those transactions.

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government-SALGA

Opening balance	2,319,960	2,203,311
Current year subscription / fee	(2,319,960)	(2,203,311)
	-	-

Audit fees

Current year subscription / fee	3,430,412	2,568,089
Amount paid - current year	(3,430,412)	(2,568,089)
	-	-

PAYE and UIF

Current year subscription / fee	23,607,551	26,597,013
Amount paid - current year	(23,607,551)	(26,597,013)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	33,280,777	30,717,180
Amount paid - current year	(33,280,777)	(30,717,180)
	-	-

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
42. Additional disclosure in terms of Municipal Finance Management Act (continued)		
VAT		
VAT receivable	-	28,525,146
VAT payable	(3,111,621)	-
	<u>(3,111,621)</u>	<u>28,525,146</u>

All VAT returns have been submitted by the due date throughout the year.

Moses Kotane Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2019 2018

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2019:

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor D Chaka	5,782	3,734	9,516
Councillor D.S Kodongo	129	12,554	12,683
Councillor J.ED Ditshwene	182	3,541	3,723
Councillor L Kapari	158	2,352	2,510
Councillor G Kgarimetsa	16,898	3,734	20,632
Councillor L.M Mmolawa	43,787	3,734	47,521
Councillor R.P Motlhaga	178	3,727	3,905
Councillor C.N Motshabi	891	6,691	7,582
Councillor M.S Mabitsela	14,382	3,654	18,036
Councillor M Nkotswe	1,256	7,756	9,012
Councillor A Nquthula	4,187	3,734	7,921
Councillor D.H Radiokana	178	3,734	3,912
Councillor S.M Manganye	1,000	14,951	15,951
Councillor JM Segale	4,163	11,356	15,519
Councillor P Thoboke	18,921	3,734	22,655
	112,092	88,986	201,078

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor D.S Kodongo	-	12,167	12,167
Councillor P Motswenyane	112	8,864	8,976
Councillor ML Mmolawa	-	21,994	21,994
Councillor D Chaka	77	6,991	7,068
Councillor G Madisa	6	2,511	2,517
Councillor G Kgarimetsa	912	13,457	14,369
Councillor JM Segale	785	13,714	14,499
Councillor R.P Motlhaga	1,280	37,061	38,341
Councillor A Nquthula	570	5,710	6,280
Councillor P Thoboke	732	16,265	16,997
Councillor C.N Motshabi	576	3,438	4,014
Councillor M Nkotswe	666	3,281	3,947
Councillor D.H Radiokana	-	8,952	8,952
Councillor L Kapari	9,296	40,193	49,489
Councillor AJ Letswamotse	-	888	888
Councillor L.M Mmolawa	493	6,983	7,476
Councillor M.S Mabitsela	576	12,977	13,553
Councillor S.M Manganye	576	11,371	11,947
Councillor J.ED Ditshwene	-	38,088	38,088
Councillor RA Diale	16,727	117,229	133,956
	33,384	382,134	415,518

